

Message Text

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SUBJECT: JULY 10 FINANCE COUNCIL MEETING -- SUPPLEMENTARY DETAILS
AND EC COMMISSION AND PERM DEL REACTIONS

REFS: A. EC BRUSSELS 6426

B. EC BRUSSELS 6332

C. EC BRUSSELS 6273

D. EC BRUSSELS 6135

E. EC-A-89, MARCH 7, 1975

F. LUXEMBOURG 543

1. SUMMARY: THE FINANCE MINISTERS AGREED AT LUNCH ON JULY 10 TO ORGANIZE A SERIES OF EC MEETINGS TO MONITOR THE CURRENT ECONOMIC SITUATION AND TO SEEK A RESOLUTION OF THEIR IMPASSE ON IMF REFORM ISSUES. THE MINISTERS MAY MEET INFORMALLY IN ITALY NEXT MONTH TO DISCUSS IMF ISSUES. FRANCE ALSO AGREED TO CONSULT ON ITS PROPOSED SUMMIT TO DISCUSS INTERNATIONAL MONETARY REFORM. END SUMMARY.

2. THIS MESSAGE SUPPLEMENTS OUR REPORT OF THE JULY 10 EC FINANCE COUNCIL (REF B). IT SUMMARIZES THE HIGHLIGHTS
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OF THE FINANCE MINISTERS' DISCUSSION AT THEIR

RESTRICTED LUNCH AND INCLUDES REACTIONS OF COMMISSION
AND PERM DEL OFFICIALS TO THE COUNCIL MEETING.

3. ECONOMIC POLICY COORDINATION: AT THEIR JULY 10
RESTRICTED LUNCHEON THE FINANCE MINISTERS AGREED TO
MONITOR CLOSELY THE CURRENT ECONOMIC SITUATION IN
ORDER TO BE READY TO TAKE PROMPT ACTION IN SEPTEMBER
SHOULD CONDITIONS WARRANT IT. THE EC ECONOMIC POLICY
COORDINATING COMMITTEE WILL MEET ON JULY 18 AND AUGUST 12 AND
28 TO REVIEW DEVELOPMENTS AND CONSIDER NEW EC ECONOMIC
GUIDELINES. THE COMMISSION PLANS TO DEVELOP A
SERIES OF EXPANSIONARY MEASURES THAT COULD BE PROPOSED
TO THE FINANCE COUNCIL ON SEPTEMBER 22 SHOULD THE
CURRENT SITUATION CONTINUE TO DETERIORATE. PERM
DEL SOURCES QUESTION THE FEASIBILITY OF SUCH PROPOSALS
BECAUSE EACH MEMBER STATE IS LIKELY TO SUPPORT THOSE
MEASURES WHICH BEST SUITS ITS INDIVIDUAL NEEDS. APEL
OF THE FRG SAID THAT THE EC GUIDELINES SHOULD BE
COORDINATED SO THAT SURPLUS COUNTRIES' EXPANSIONARY
MEASURES ARE COUNTER-BALANCED BY CONTINUED RESTRAINT ON
THE PART OF DEFICIT COUNTRIES.

4. IMF ISSUES: FOURCADE OF FRANCE EMPHASIZED THAT THE
RETURN TO STABLE EXCHANGE RATES WAS THE GOF'S PRIORITY
CONCERN. THIS CONCERN WAS LINKED TO ESTABLISHING
A COMMUNITY TARGET RATE AGAINST THE DOLLAR. APEL SAID
THAT THERE MUST FIRST BE CONVERGENCE OF IMF MEMBER'S
ECONOMIC POLICIES BEFORE THERE COULD BE A RETURN TO A
STABLE EXCHANGE RATE SYSTEM. APEL ADDED THAT THE
DIFFERENCES IN POINTS OF VIEW COULD CREATE A SERIOUS
CLASH WITHIN THE EC. ITALY THEN PROPOSED THAT THE FINANCE
MINISTERS MEET AGAIN INFORMALLY IN ITALY BEFORE THE
INTERIM COMMITTEE TO SEEK A COMPROMISE. MOST
MINISTERS AGREED IN PRINCIPLE BUT FIXED NO DATE FOR
THE MEETING.

5. FRANCE AGREED TO SUBMIT IN ADVANCE OF THE AUGUST
11 MONETARY COMMITTEE MEETING ITS PROPOSALS FOR AN
EXCHANGE RATE SYSTEM. COMMISSION OFFICIALS UNDER-
STAND THAT THE GOF HAS IN MIND PROPOSING A FIXED
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TIME DURING WHICH AN IMF MEMBER MAY PROPOSE A PAR
VALUE. THE FRENCH MAY ALSO PROPOSE GRADUALLY
RESTRICTING THE FREEDOM OF MEMBERS TO FLOAT TEMPORARILY
OVER A SIX YEAR PERIOD. THIS PERIOD WOULD BE DIVIDED
INTO THREE TWO-YEAR STAGES, EACH OF WHICH WOULD BE
MORE RIGOROUS THAN THE PRECEDING ONE, I.E., SEQUENTIAL
USE OF THE ALTERNATIVES IN PARA 7B OF REF D: A)
IN THE FIRST TWO YEARS A MEMBER MUST JUSTIFY ITS

REQUEST TO RESUME TEMPORARY FLOATING BUT THE IMF WOULD GIVE IT THE BENEFIT OF DOUBT; B) IN THE SECOND TWO YEARS, BEFORE GRANTING AUTHORIZATION TOP FLOAT, THE IMF MAY ASK THE MEMBER TO RECONSIDER WITHIN A CERTAIN TIME PERIOD BUT THE MEMBER MAY CONFIRM ITS INTENTION TO FLOAT; AND FINALLY C) IN THE FINAL TWO YEARS, IMF AUTHORIZATION WILL BE GRANTED ON A TEMPORARY BASIS AND MAY BE REVOKED AT ANY TIME. (IT IS NOT CLEAR WHAT THE FRENCH WOULD PROPOSE FOR SUBSEQUENT PERIODS.)

6. COMMISSION OFFICIALS DO NOT BELIEVE SUCH A PROPOSAL WOULD BE ACCEPTABLE BECAUSE IT WOULD GIVE THE EC LITTLE FLEXIBILITY IN THE INTERIM COMMITTEE NEGOTIATIONS AND MOST OTHER MEMBER STATES WOULD PREFER A FLEXIBLE FORMULA. ITALY, HOWEVER, MAY GO ALONG WITH FRANCE ON THIS ISSUE IF IN TURN THE GOF SUPPORTS GOI EFFORTS TO GAIN FREEDOM TO SELL GOLD IN THE MARKET.

7. FRENCH MONETARY CONFERENCE: FOURCADE CONFIRMED AT LUNCH THAT THE GOF HAD PROPOSED A SUMMIT MEETING OF MAJOR INDUSTRIALIZED COUNTRIES TO CONSIDER INTERNATIONAL MONETARY ISSUES. AS INDICATED IN REF A, GISCARD WILL CONSULT WITH THE OTHER HEADS OF GOVERNMENTS AT THE EUROPEAN COUNCIL MEETING. HE PARTICULARLY WANTS THEIR VIEWS ON HOW MANY AND WHICH COUNTRIES SHOULD BE INVITED.

8. EURATOM: THE FINANCE COUNCIL BRIEFLY CONSIDERED A COMMISSION PROPOSAL TO AUTHORIZE EURATOM TO BORROW ON THE INTERNATIONAL CAPITAL MARKETS TO FINANCE THE CONSTRUCTION OF NUCLEAR POWER STATIONS (SEE REF E).
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THE MINISTERS COULD NOT AGREE ON HOW SUCH BORROWINGS SHOULD BE GUARANTEED AND HOW THE FINANCING SHOULD BE ADMINISTERED AND REFERRED THE PROPOSAL BACK TO THE EC PERM REPS. PERM DEL SOURCES BELIEVE THAT THE COUNCIL WILL EVENTUALLY AGREE TO THIS PROPOSAL BUT FOR A SMALLER AMOUNT THAN THE \$500 MILLION EACH YEAR PROPOSED BY THE COMMISSION.

9. EUROPEAN INVESTMENT BANK (EIB): THE COUNCIL AGREED TO GRANT THE EIB BOARD OF GOVERNORS AUTHORITY TO DECIDE ON THE UNIT OF ACCOUNT WHICH THE BANK WILL USE. THIS DECISION MUST BE RATIFIED BY NATIONAL PARLIAMENTS. THE EIB'S CURRENT U.A. DOES NOT CORRESPOND TO CURRENT FOREIGN EXCHANGE RATES.

10. COMMENT: THE EC DEBATE OVER INTERNATIONAL
MONETARY REFORM IS LIKE THE QUESTION OF WHICH COMES FIRST,
THE CHICKEN OR THE EGG. MOST MEMBER STATES ARGUE
THAT IT IS UNREALISTIC TO RETURN TO FIXED PARITIES
UNTIL KEY COUNTRIES CONVERGE THEIR ECONOMIC POLICIES
AND ECONOMIC CONDITIONS BECOME MORE STABLE. FRANCE
MAINTAINS, ON THE OTHER HAND, THAT FLOATING RATES HAVE LED
TO THE CURRENT ECONOMIC MALAISE AND EXCHANGE RATES
MUST AGAIN BE STABILIZED BEFORE THERE CAN BE A RETURN
TO ECONOMIC PROSPERITY. THE CURRENT DEBATE IS BECOMING
BITTER AND IS LIKELY TO HOLD UP PROGRESS ON THE REFORM
ISSUES. AS ONE FRG OFFICIAL HERE PUTS IT "EIGHT
OF THE MEMBER STATES ARE ISOLATED ON THIS ISSUE."
END COMMENT. GREENWALD

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